

Message Text

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ACTION TRSE-00

INFO OCT-01 ARA-06 ISO-00 EB-07 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

CIEP-01 OMB-01 /044 W

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R 162125Z SEP 76

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 2390

LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 7407

E.O. 11652: N/A

TAGS: EFIN, EAID, BL

SUBJECT: BOLIVIA'S BALANCE OF PAYMENTS AND DEBT PROSPECTS

REF: (A) STATE 223505 (B) LA PAZ A-11 OF 1/27/76;

(C) LA PAZ A-102 OF 9/14/76

1. THE EMBASSY COMPLETED A DETAILED AIRGRAM BOP SURVEY ON SEPTEMBER 14 (REF C) AND THE FOLLOWING BOP DATA FOR 1975-1977 IS TAKEN FROM THAT AIRGRAM. SOME OF OUR ASSUMPTIONS ARE, THEREFORE, SLIGHTLY DIFFERENT THAN THOSE IN REF A. DATA FOR 1974 ARE CONTAINED IN REF B. THE EMBASSY WAS UNABLE IN THE TIME AVAILABLE TO MAKE THE CAPITAL ACCOUNT BREAKDOWN REQUESTED IN ITEMS F - H, PARA 2 REF A. WE HAVE THEREFORE USED CATEGORIES CONTAINED IN REF C. "PUBLIC CAPITAL" IN THIS BREAKDOWN IS DEFINED AS LONG-TERM CAPITAL TO THE PUBLIC SECTOR AND "PRIVATE" IS LONG-TERM CAPITAL TO THE PRIVATE SECTOR, REGARDLESS OF SOURCE. WE BELIEVE VIRTUALLY ALL SHORT-TERM CAPITAL IS TO THE PRIVATE SECTOR ALTHOUGH NO RELIABLE DATA ARE AVAILABLE ON THIS ITEM.

\$US MILLIONS (-)PLUS FINAL FIN MIN EMB FIN MIN EMB

1975 EST EST EST EST

1976 1976 1977 1977

CURRENT ACCT. BAL (158) (190) (258) (185) (326)

A. EXPORTS (FOB) 462 524 530 597 599

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B. IMPORTS (FOB) 515 569 630 612 725

C & D NET SERVICES (118) (160) ((172) #(190) (217)

E. TRANSFERS 13 15 15 20 17

CAPITAL ACCT. BAL 137 243 293 153 347

F - G - H

PUBLIC CAPITAL (NET) 54 269# 269 - 322

PRIVATE CAPITAL (NET) 105 - 50 - 55

SHORT-TERM CAPITAL NET(22) (26) (26) - (30)

E & O (23) - - - -

NET BALANCE (44.4) 53 36 (32) 22

I. CHANGE IN INT'L

RESERVE LEVEL 115 168 151 136 173

#(INCLUDES PUBLIC AND PRIVATE LT CAPITAL)

2. CRITICAL ASSUMPTIONS UNDERLYING OVERALL BOP PROJECTIONS

ARE AS FOLLOWS: 1976 1977

TIN	VOLUME		CIF		FOB		VOLUME		CIF		FOB	
	PRICE		EXPORT		PRICE		EXPORT		PRICE		EXPORT	
	MT		VALUE		MT		VALUE		MT		VALUE	
			\$ MIL				\$ MIL				\$ MIL	

METAL (MT) 11,000 \$7,568 77.89 11,330 \$7,700 84.82

CONCEN.(MT) 20,000 \$7,568 106.02 20,000 \$7,700 113.00

PETROLEUM 7,852 \$13.50 109.97 8,732 \$14.00 122.25

(OOO BBL) /BBL /BBL

(ASSUMED INCREASE IN PETROLEUM PRICE 76 - 77 EQUAL 4 PCT.

IMPORTS - INCREASE OF 22 PCT IN 1976 AND 15 PCT IN 1977.

B. PUBLIC/CAPITAL 1976: ITEM BY ITEM ESTIMATES OF DISBURSEMENTS FOR ALL MAJOR LENDERS PROJECTS, PLUS \$US 155 MILLION IN PRIVATE BANK CONSORTIA LOANS, ASSUMED TO BE ALMOST FULLY DISBURSED IN 1976M 1977: SIMILAR ITEM BY ITEM ESTIMATES OF DISBURSEMENTS BY ALL MAJOR LENDING AGENCIES, PLUS ASSUMED PRIVATE BANK CONSORTIA BORROWING LEVEL OF \$US 150 MILLION.

3. DEBT OUTLOOK 1976 - 1980. BOLIVIA'S CONTRACTED PUBLIC SECTOR DEBT AS OF DECEMBER 31, 1975, WAS \$1.55 BILLION, OF WHICH \$882.7 MILLION HAD BEEN DISBURSED. THE DEBT OUTLOOK OVER THE NEXT FOUR YEARS WILL, OF COURSE, DEPEND ON THE GOB'S POLICIES WITH REGARD TO CONTRACTING NEW DEBT AS WELL AS THE EXPECTED RATE OF DISBURSEMENTS ON CONTRACTED DEBT. THE GOB RECENTLY PUBLISHED A NEW FIVE-YEAR PLAN WHICH CALLS FOR SOME LIMITED OFFICIAL USE

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\$3.6 BILLION IN PUBLIC AND PRIVATE SECTOR INVESTMENT IN THE 1976-1980 PERIOD, A LARGE SHARE OF WHICH WILL HAVE TO COME FROM INTERNATIONAL AID DONORS AS WELL AS PRIVATE FINANCIAL INSTITUTIONS IF THE INVESTMENT GOALS ARE TO BE ACHIEVED. MUCH OF THIS INVESTMENT IS EXPORT-ORIENTED OR IS DESIGNATED FOR INFRASTRUCTURE DEVELOPMENT WHICH COULD LEAD TO LONGER TERM EXPORT GROWTH, ESPECIALLY IN THE MINERALS SECTOR. MORE IMPORTANT THAN THE LEVEL OF DEBT WILL BE THE LEVEL OF DEBT SERVICE PAY-

MENTS AND WHETHER BOLIVIAN EXPORTS WILL EXPAND SUFFICIENTLY TO CARRY THE INCREASING DEBT SERVICE. BECAUSE OF BOLIVIA'S INCREASING INVESTMENT FINANCING NEEDS, AND BECAUSE OF ITS DIFFICULTY IN OBTAINING AN ADEQUATE LEVEL OF SOFT TERM FINANCING FROM THE IFI'S, DESPITE ITS HAVING THE SECOND LOWEST PAR CAPITA GNP IN THE HEMISPHERE, THE GOB HAS SIGNIFICANTLY INCREASED ITS BORROWING FROM FOREIGN PRIVATE BANKS IN 1976. SOME \$155 MILLION IN BANK CONSORTIA LOANS HAVE BEEN SIGNED ON FIVE-YEAR TERMS WITH AMORTIZATION PAYMENTS TO

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

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FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 2391

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BEGIN IN THE THIRD YEAR. THIS FIVE-YEAR BORROWING WILL SUBSTANTIALY RAISE DEBT SERVICE REQUIREMENTS, FROM AN ESTIMATED \$109 MILLION IN 1976, TO \$142 MILLION IN 1977, AND TO ABOUT \$195 MILLION IN 1978, A 79 PERCENT INCREASE OVER THE 1976-1978 PERIOD. IF THE GOB CONTINUED BANK CONSORTIA BORROWING OVER THE 1977-1979 PERIOD AT THE \$150 MILLION LEVEL, THE ESTIMATED DEBT SERVICE REQUIREMENTS WOULD BE ABOUT AS INDICATED IN THE CHART BELOW.

(IN MILLIONS OF \$US)

1976 1977 1978 1979 1980

EMBASSY ESTIMATE

DEBT SERVICE 109 145 212 280 341

ESTIMATED EXPORTS (FOB) 530 599 730

THE GOB'S LATEST PUBLISHED DEBT SERVICE AND EXPORT PROJECTIONS
CONTAINED IN THE FIVE-YEAR PLAN, ARE AS FOLLOWS:

ACTUAL

1975 1976 1977 1978 1979 1980

GOB ESTIMATE

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DEBT SERVICE # 92 108 140 179 224 271

#FIVE-YEAR PLAN

EXPORTS 461 615 723 851 1,004 1,185

DEBT/SERVICE

RATIO 19.9 PER

CENT 17.5 PER

CENT 19.4 21.0 22.3 22.9

PER CENT PER CENT PER CENT PER CEN

T

IN OUR VIEW THE GOB EXPORT PROJECTIONS FOR 1977 AND 1978 ARE
UNREALISTICALLY HIGH UNLESS WORLD MINERALS PRICES IMPROVE SUG-
STANTIALY DURING THAT PERIOD.

4. REF C CONTAINS A MORE DETAILED ANALYSIS OF BOLIVIA'S DEBT
OUTLOOK.

5. EMBASSY COMMENT: WE DO NOT CONSIDER BOLIVIA'S DEBT SERVICE
OUTLOOK TO BE PARTICULARLY DANGEROUS AT THIS TIME IN VIEW THE
DYNAMIC ECONOMY AND THE REASONABLE POLITICAL STABILITY OF
PRESIDENT BANZER'S GOVERNMENT. ONE POSITIVE FACTOR IS
THAT BOLIVIA AND THE GOB'S SENIOR ECONOMIC OFFICIALS HAVE COME
THROUGH A PERIOD (SEPTEMBER, 1974, TO MARCH, 1976) OF REDUCED
WORLD PRICES FOR ITS MAJOR MINERALS EXPORTS WITHOUT SERIOUS
BALANCE OF PAYMENTS PROBLEMS OR MAJOR DAMAGE TO THE DOMESTIC
ECONOMY, WHICH GREW BY AN OFFICIALLY REPORTED 6.7 PERCENT IN 1975.
NEVERTHELESS, WE BELIEVE THE RECENT RESORT TO BANK CONSORTIA
BORROWING ON FIVE-YEAR TERMS, IF IT CONTINUES, COULD CREATE
SOME PROBLEMS IF, FOR EXAMPLE, WORLD MINERALS PRICES WERE
AGAIN TO FOLL OFF. HOWEVER, WE BELIEVE THAT THE IMF, NOT THE USG,
SHOULD TAKE THE LEAD IN CALLING TO THE ATTENTION OF THE GOB THE
PROBLEMS WHICH RISING DEBT SERVICE OBLIGATIONS COULD CREATE IN
THE FUTURE. THE IMF ANNUAL SURVEY TEAM IS PRESENTLY IN LA PAZ
AND IS IN A BETTER POSITION TO GAUGE THE DEBT OUTLOOK FOR BOLIVIA
AND ITS RELATIONSHIP TO ECONOMIC AND EXPORT GROWTH THAN WE ARE.

WE WOULD PREFER, THEREFORE, THAT THESE USG ESTIMATES BE KEPT
FOR INTERNAL USE. THE EMBASSY WISHES TO CALL TO THE DEPARTMENT'S
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MENT'S ATTENTION, HOWEVER, THAT A MORE FORTHCOMING ATTITUDE
ON THE PART OF THE IFIS (ESPECIALLY THE IBRD) ON SOFT-TERM
LENDING POLICY TO BOLIVIA WOULD HELP PRECLUDE USE OF FIVE-YEAR
HARD TERM BORROWING AND PERHAPS HELP SUPPORT THE CONTINUATION
OF THE ECONOMIC GROWTH AND POLITICAL STABILITY WHICH BOLIVIA
HAS ACHIEVED.
STEDMAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, DEBT REPAYMENTS, GOVERNMENT DEBTS, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 16 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LAPAZ07407
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760351-0820
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760954/aaaabuat.tel
Line Count: 238
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 223505, 76 LA PAZ A-11, 76 LA PAZ A-102
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2004 by ellisoob>; APPROVED <25 OCT 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BOLIVIA'S BALANCE OF PAYMENTS AND DEBT PROSPECTS
TAGS: EFIN, EAID, BL
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006